

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Mesick	County Wexford
Fiscal Year End February 28, 2007	Opinion Date August 27, 2007	Date Audit Report Submitted to State 09/14/2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Baird, Cotter and Bishop, P.C.		Telephone Number (231) 775-9789	
Street Address 134 West Harris Street		City Cadillac	State MI
Authorizing CPA Signature 		Printed Name Steven C. Arends	License Number 1101013211

**VILLAGE OF MESICK, MICHIGAN**

**FEBRUARY 28, 2007**

*Baird, Cotter and Bishop, P.C.*

**CERTIFIED PUBLIC ACCOUNTANTS**

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VILLAGE OF MESICK, MICHIGAN

FEBRUARY 28, 2007

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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August 27, 2007

### INDEPENDENT AUDITORS' REPORT

To the Village Council  
Village of Mesick, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Mesick, Michigan, as of and for the year ended February 28, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Mesick, Michigan's, management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Mesick Michigan, as of February 28, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2007, on our consideration of the Village of Mesick, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over the financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through xii and 24, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Mesick, Michigan, basic financial statements. The individual fund financial statements and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

**Management's Discussion and Analysis**

The management of the Village of Mesick, Michigan ("the Village") offers this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 28, 2007 for the benefit of the readers of these financial statements. This management's discussion and analysis is intended to assist the reader in focusing on significant financial issues and to provide an overview of the Village's financial activity. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole, which can be found in this report.

**Financial Highlights**

**Government-Wide**

- ❖ The assets of the Village exceeded its liabilities at the close of this fiscal year by \$1,737,189 (shown as *Net Assets*), representing an increase of \$777,456 over the previous fiscal year. Governmental Funds represented \$589,550 of this increase, while Business-Type activities accounted for \$187,906 of the increase.

**Fund Level Financial Highlights**

- ❖ As of February 28, 2007, the governmental funds of the Village of Mesick reported combined ending fund balances of \$314,295, of which all is unreserved.
- ❖ The unreserved fund balance of the Village's General Fund decreased this year by \$174,855.

**Long-Term Debt**

- ❖ The Village of Mesick's total debt **decreased** by \$15,000 during the fiscal year.

**Overview of the Financial Statements**

The Village of Mesick's financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** This report includes government-wide statements as required by GASB Statement Number 34. The *government-wide financial statements* are designed to provide a broad overview of the Village's financial position. The Statement of Net Assets and the Statement of Activities are two financial statements that report information about the Village as a whole, and provide measurements of long-term trends. They are presented using a method of accounting that is similar to a private-sector business.

## VILLAGE OF MESICK

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

The *Statement of Net Assets* (Page 1) presents information on all of the Village's assets and liabilities, the difference between the two being reported as the Net Assets of the Village. Over time, increases or decreases in net assets can serve as a useful indicator of whether the financial position of the Village is improving or deteriorating. An increase in net assets would indicate an improvement in financial condition. On the other hand, a consistent decrease over time in net assets may indicate a decline in the financial health of an organization.

The *Statement of Activities* (Page 2) gives the information on the revenues and expenses causing the underlying change in the government's net assets during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows.

Both of these statements distinguish functions of the Village that are principally supported by property taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or most of their costs through user fees and charges (business-type activities). Governmental activities of the Village include general government, public safety, major and local streets, public works, culture and recreation. Business-type activities of the Village include water utility services.

#### **Focus on Funds**

Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar. The focus has shifted, however, to Major Funds, rather than the previous focus on fund types. The Village's major Governmental Funds include the General Fund, Major Street Fund, and Local Street Fund. The major Proprietary Funds include the Water Fund. Presentation of major funds can be found on pages 33-35 of this document.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Each fund is operated similar to a completely separate entity, with its own set of balancing accounts. The Village of Mesick uses fund accounting to ensure compliance with finance-related legal requirements. There are three basic types of funds: governmental funds, proprietary funds, and fiduciary funds.

***Governmental Funds*** Many of the Village's basic services are reported in the governmental funds. Governmental funds account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This is known as the modified accrual basis of accounting. Under this reporting system, capital items, debt payments and certain other items are treated differently than on the government-wide statements. These items are recorded in the governmental fund statements on the Statement of Revenues, Expenditures and Changes in Fund Balance as an expenditure. No



VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

depreciation is recorded on capital items. The balance sheet for governmental funds does not include any capital items or long-term debt. Governmental funds for the Village include the General Fund as well as the special revenue funds.

***Proprietary Funds*** Proprietary funds account for services for which the Village charges its customers for the services they are provided. These charges can be to external customers or other agencies within the Village.

- Enterprise funds are used to report business-like activities of the Village. These activities intend to recover the full cost of the services through the fee charged to the customers. The Village has one enterprise fund, which is the Water Fund.

***Fiduciary Funds*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. These funds are not reflected in the government-wide financial statements because the resources of the funds are not available for supporting the Village's programs. These funds are accounted for using the full accrual method of accounting, much like the Proprietary funds.

### **Notes to the Financial Statements**

The Notes to the Basic Financial Statements provide additional information that is essential to a complete understanding of the information provided in both the government-wide and the fund financial statements. The notes can be found beginning on Page 11 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements. This information can be found beginning on Page 24 of this report.

### **Government-Wide Financial Analysis**

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Village's financial position over time. The Net Assets of the Village are \$1,737,189 at February 28, 2007, meaning that the Village's assets were greater than its liabilities by this amount. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

**Village of Mesick  
Net Assets**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
Current and other assets	\$ 584,901	\$ 126,460	\$ 711,361
Capital Assets	880,554	578,510	1,459,064
<b>Total Assets</b>	<b>\$ 1,465,455</b>	<b>\$ 704,970</b>	<b>\$ 2,170,425</b>
Long-term liabilities	0	192,242	192,242
Other liabilities	225,994	15,000	240,994
<b>Total Liabilities</b>	<b>\$ 225,994</b>	<b>\$ 207,242</b>	<b>\$ 433,236</b>
Net Assets			
Invested in capital assets net of related debt	880,554	371,268	1,251,822
Unrestricted	358,907	126,460	485,367
<b>Total Net Assets</b>	<b>\$ 1,239,461</b>	<b>\$ 497,728</b>	<b>\$ 1,737,189</b>

The most significant portion of the Village's Net Assets amounts to \$1,251,822 in investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt that is outstanding that the Village used to acquire or construct the asset. The remaining of the Village's Net Assets is the unrestricted Net Assets. These assets represent resources that are available for appropriation, but may be limited by Village policies regarding their use.

The total net assets of the Village increased \$777,456 in this fiscal year, which is a good indicator that the Village experienced positive financial growth during the year. As a result, the Village ended the fiscal year in better condition than when the year started.

The following table illustrates and summarizes the results of the changes in the Net Assets for the Village. The condensed information was derived from the Government-wide Statement of Activities.

VILLAGE OF MESICK

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

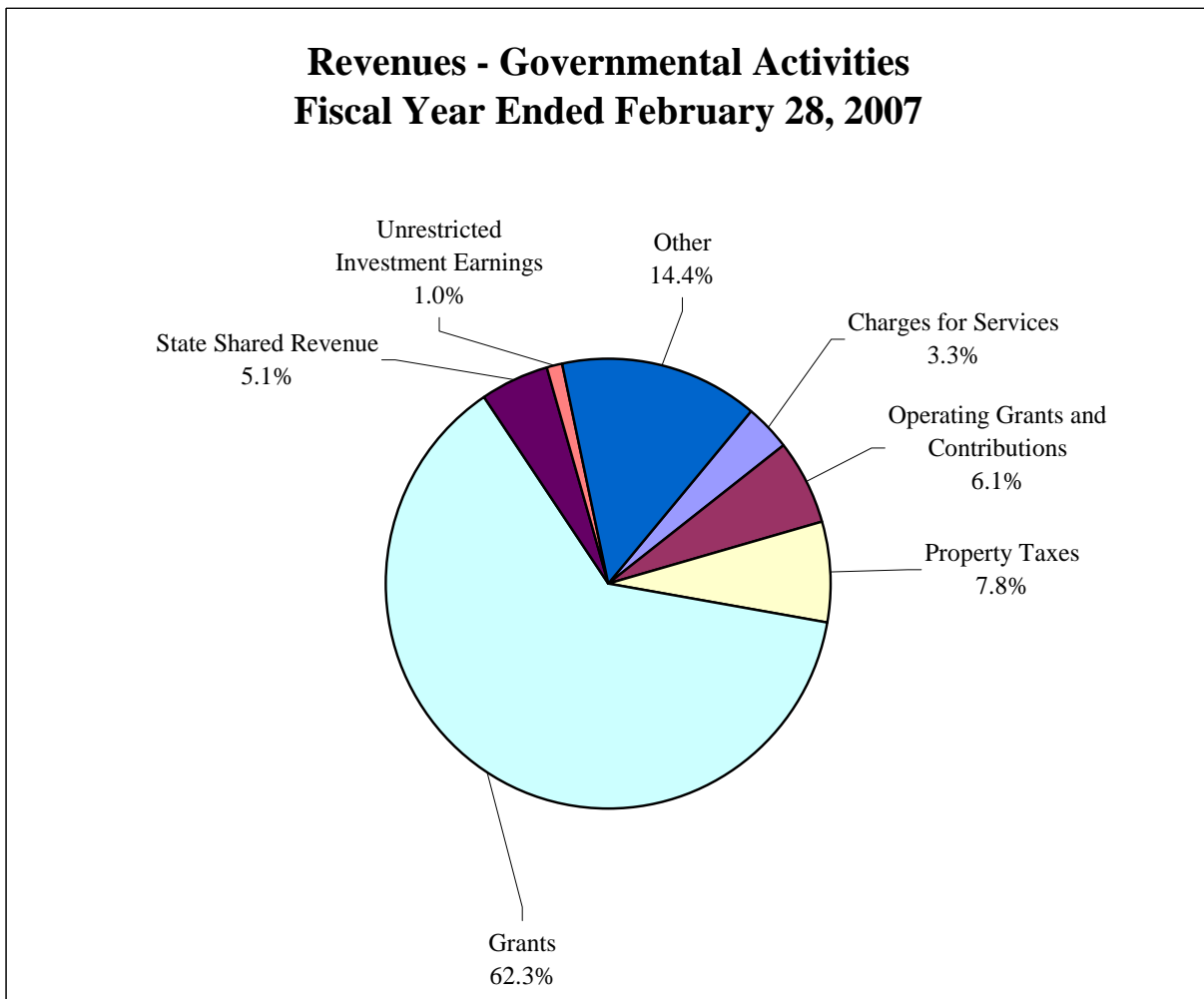
**Village of Mesick**  
**Change in Net Assets**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
<b><u>Revenues</u></b>			
<b>Program Revenues</b>			
Charges for Services	\$ 28,224	\$ 95,588	\$ 123,812
Operating Grants and Contributions	51,341	0	51,341
Capital Grants and Contributions	530,903	186,368	717,271
<b>General Revenues</b>			
Property Taxes	66,624	0	66,624
State Shared Revenues	45,348	0	45,348
Investment Earnings	8,644	3,963	12,607
Other	122,394	0	122,394
<b>Total Revenues</b>	<b>\$ 853,478</b>	<b>\$ 285,919</b>	<b>\$ 1,139,397</b>
<b><u>Expenses</u></b>			
Legislative	\$ 102,841	\$ 0	\$ 102,841
General Government	80,096	0	80,096
Public Works	49,786	0	49,786
Other Functions	31,205	0	31,205
Water	0	98,013	98,013
<b>Total Expenses</b>	<b>\$ 263,928</b>	<b>\$ 98,013</b>	<b>\$ 361,941</b>
Increase in Net Assets	589,550	187,906	777,456
Beginning Net Assets	649,911	309,822	959,733
Ending Net Assets	<b>\$ 1,239,461</b>	<b>\$ 497,728</b>	<b>\$ 1,737,189</b>

VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

**Governmental Activities**

The following chart details the revenue sources for the governmental activities of the Village for the fiscal year ended February 28, 2007:



The most significant portion of the revenue for all governmental activities of the Village of Mesick comes from Grants (62.8%). The Village's operating millage remained the same in 2007 at 11 mills. The Village's charter allows the Village to levy up to 11 mills for operations. Due to State statutes, the Village is currently at its maximum tax levy, and is unable to increase the millage without the approval of the voters.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes.

VILLAGE OF MESICK

MANAGEMENT'S DISCUSSION AND ANALYSIS

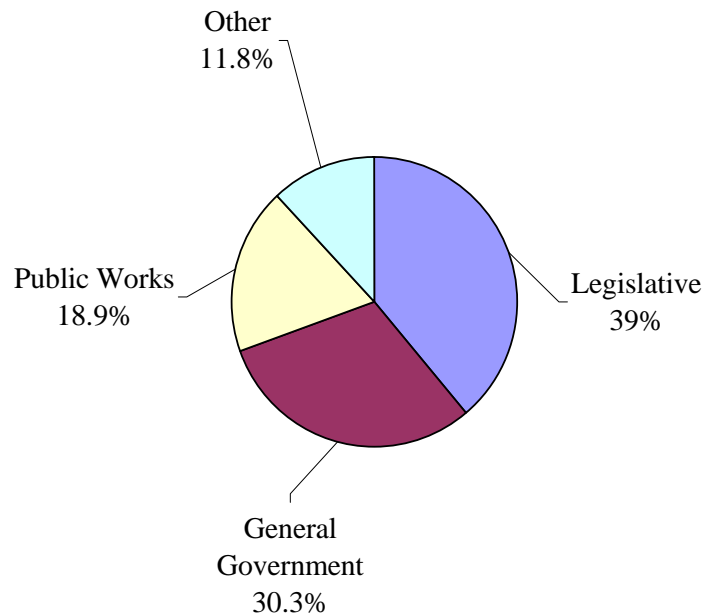
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

Operating grants and contributions is made up of federal grants, state grants and Act 51 distributions to the major and local streets.

The following chart depicts expenses of the governmental activities of the Village for the fiscal year ended February 28, 2007:

The Village's governmental activities expenses are dominated by the Legislative expenses that total 39% of total expenses. The Village spent \$102,841 in FY2007 on Legislative Expenditures. General Government represented the next largest expense at \$80,096, or 30.3% of total expenses within the governmental activities. Expenses in the Major Street Fund (\$18,617) and Local Street Fund (\$17,031) represent a majority of the Public Works expenditures.

**Expenses - Governmental Activities  
Fiscal Year Ended February 28, 2007**



**Business-Type Activities**

The Village's business-type activities accounted for an increase of \$187,906 in the Village's Net Assets for the fiscal year ended February 28, 2007.

VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

The Business-type activities of the Village include the Water Fund, which provides water services to Village residents as well as commercial customers.

**Financial Analysis of the Government's Funds**

***Governmental Activities*** At the completion of the Village's fiscal year ended February 28, 2007, its governmental funds reported fund balances of \$314,295. Of this amount, 100% is unreserved. This amount includes \$75,888 designated for street improvements. An additional \$238,407 of unreserved and undesignated fund balance exists in the Village's General Fund.

**General Fund** – The General Fund is the main operating fund of the Village. The General Fund decreased its fund balance in this fiscal year by \$174,855, bringing the balance to \$238,407. All of the General Fund's major functions with the exception of Culture and Recreation and Public Works ended the year with expenditures below appropriated amounts.

**Major Street Fund** – The fund balance of the Major Street Fund ended the year at \$64,885. This was an increase of \$11,122 from the previous year.

**Local Street Fund** – The fund balance of this fund is at \$11,003, an increase from last year of \$6,372.

***Proprietary Funds*** The Village's proprietary funds provide virtually the same information as the government-wide statements; however more detail may be found in the fund financial statements.

**Water Fund** – The Water Fund ended this fiscal year with \$126,460 in unrestricted net assets. The net assets of the fund increased by \$187,906 in 2007. This fund remains in sound fiscal condition moving forward.

**General Fund Budgetary Highlights**

During the year there was a \$703,756 increase in appropriations between the original and final amended budget for the general fund. The main component of the increase was the result of securing state and federal grants to fund a downtown streetscape improvement project.

In addition, the Village received private donations totaling \$15,268 for the construction of a playscape area.

**Capital Assets and Debt Administration**

**Capital Assets.** The Village's investment in capital assets for the governmental and business-type activities as of February 28, 2007 amounted to \$1,459,064 (net of accumulated

VILLAGE OF MESICK

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

depreciation). Capital assets of the Village include any items purchased that cost in excess of \$5,000 and have an expected useful life of over one year. The Village has invested in a broad range of capital assets, as detailed below:

Major capital asset events during the fiscal year 2006-2007 included the following:

- Streetscape Construction Project of \$699,265.
- Playscape Construction Project of \$44,690.
- Water Main Replacement \$214,310.

**Village of Mesick  
Capital Assets as of February 28, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Land	\$ 45,925	\$ 2,706	\$ 48,631
Land and Building Improvements	803,677	0	803,677
Buildings	37,000	1,500	38,500
Equipment	101,347	0	101,347
Construction In Progress	0	69,379	69,379
Water System	0	1,178,991	1,178,991
<b>Subtotal</b>	<b>\$ 987,949</b>	<b>\$ 1,252,576</b>	<b>\$ 2,240,525</b>
Accumulated Depreciation	107,395	674,066	781,461
<b>Net Capital Assets</b>	<b>\$ 880,554</b>	<b>\$ 578,510</b>	<b>\$ 1,459,064</b>

Additional information regarding the Village's capital assets can be found in the Notes to Financial Statements section on pages 18 and 19.

**Long-Term Debt.** The Village's debt represents bonds secured solely by specified revenue sources. The revenue bonds are associated with the Water Fund (\$207,242), are backed by revenues from the Water system, and have been used to finance major capital projects within the Water system.

VILLAGE OF MESICK  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED FEBRUARY 28, 2007

**Village of Mesick Outstanding Debt**  
**Revenue Bonds**  
**as of February 28, 2007**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Revenue Bonds	\$ 0	\$ 207,242	\$ 207,242

**Contacting the Village's Finance Department**

This financial report is designed to provide the wide variety of users of this document with a general overview of the Village's finances and demonstrate the Village's accountability for the money entrusted to it. If you have any questions regarding this report or need additional financial information, please direct your requests to the Village of Mesick, 7329 West M-115, Mesick, Michigan 49668, or call us at (231) 885-1646.



VILLAGE OF MESICK, MICHIGAN

STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

	GOVERNMENTAL ACTIVITIES	BUSINESS TYPE ACTIVITIES	TOTALS
<u>CURRENT ASSETS</u>			
Cash	\$ 40,025	\$ 79,729	\$ 119,754
Investments	283,121	93,747	376,868
Receivables			
Taxes	18,638	0	18,638
Accounts	0	44,707	44,707
Special Assessments	44,612	0	44,612
External Parties (Fiduciary Funds)	64	0	64
Internal Balances	91,723	(91,723)	0
Due from Other Governments	106,718	0	106,718
Total Current Assets	\$ 584,901	\$ 126,460	\$ 711,361
<u>CAPITAL ASSETS</u>			
Land	\$ 45,925	\$ 2,706	\$ 48,631
Land and Building Improvements	803,677	0	803,677
Buildings	37,000	1,500	38,500
Equipment	101,347	0	101,347
Construction in Progress	0	69,379	69,379
Water Systems	0	1,178,991	1,178,991
	\$ 987,949	\$ 1,252,576	\$ 2,240,525
Less Accumulated Depreciation	107,395	674,066	781,461
Net Capital Assets	\$ 880,554	\$ 578,510	\$ 1,459,064
TOTAL ASSETS	\$ 1,465,455	\$ 704,970	\$ 2,170,425
<u>LIABILITIES</u>			
<u>CURRENT LIABILITIES</u>			
Accounts Payable	\$ 224,562	\$ 0	\$ 224,562
Payroll Withholdings	1,432	0	1,432
Revenue Bonds Payable-Current Portion	0	15,000	15,000
Total Current Liabilities	\$ 225,994	\$ 15,000	\$ 240,994
<u>LONG-TERM LIABILITIES</u>			
Revenue Bonds	\$ 0	\$ 207,242	\$ 207,242
Less: Current Portion	0	15,000	15,000
Total Long-Term Liabilities	\$ 0	\$ 192,242	\$ 192,242
TOTAL LIABILITIES	\$ 225,994	\$ 207,242	\$ 433,236
<u>EQUITY</u>			
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 880,554	\$ 371,268	\$ 1,251,822
Unrestricted	358,907	126,460	485,367
TOTAL NET ASSETS	\$ 1,239,461	\$ 497,728	\$ 1,737,189

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN

STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2007

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS		
		CHARGES FOR	OPERATING	CAPITAL	GOVERNMENTAL	BUSINESS-TYPE	TOTALS
		SERVICES	GRANTS AND	GRANTS AND	ACTIVITIES	ACTIVITIES	
			CONTRIBUTIONS	CONTRIBUTIONS			
<u>GOVERNMENTAL ACTIVITIES</u>							
Legislative	\$ 102,841	\$ 0	\$ 0	\$ 0	\$ (102,841)	\$ 0	\$ (102,841)
General Government	80,096	28,224	0	0	(51,872)	0	(51,872)
Public Works	49,786	0	51,341	530,903	532,458	0	532,458
Other Functions	31,205	0	0	0	(31,205)	0	(31,205)
Total Governmental Activities	\$ 263,928	\$ 28,224	\$ 51,341	\$ 530,903	\$ 346,540	\$ 0	\$ 346,540
<u>BUSINESS-TYPE ACTIVITIES</u>							
Water System	\$ 98,013	\$ 95,588	\$ 0	\$ 186,368	\$ 0	\$ 183,943	\$ 183,943
TOTAL	\$ 361,941	\$ 123,812	\$ 51,341	\$ 717,271	\$ 346,540	\$ 183,943	\$ 530,483
<u>GENERAL REVENUES</u>							
Property Taxes					\$ 66,624	\$ 0	\$ 66,624
State Shared Revenue					45,348	0	45,348
Investment Earnings					8,644	3,963	12,607
Other					122,394	0	122,394
Total General Revenues					\$ 243,010	\$ 3,963	\$ 246,973
Change in Net Assets					\$ 589,550	\$ 187,906	\$ 777,456
<u>NET ASSETS</u> - Beginning of Year					649,911	309,822	959,733
<u>NET ASSETS</u> - End of Year					\$ 1,239,461	\$ 497,728	\$ 1,737,189

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
GOVERNMENTAL FUNDS

BALANCE SHEET  
FEBRUARY 28, 2007

	GENERAL FUND	MAJOR STREET	LOCAL STREET	TOTALS
<u>ASSETS</u>				
Cash	\$ 23,497	\$ 4,563	\$ 11,965	\$ 40,025
Investments	234,965	48,156	0	283,121
Receivables				
Taxes	18,638	0	0	18,638
Special Assessments	44,612	0	0	44,612
Due from Other Funds	98,406	0	0	98,406
Due from Other Governments	88,895	12,186	5,637	106,718
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 509,013	\$ 64,905	\$ 17,602	\$ 591,520
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Payroll Withholdings Payable	\$ 1,432	\$ 0	\$ 0	\$ 1,432
Accounts Payable	224,562	0	0	224,562
Deferred Revenue	44,612	0	0	44,612
Due to Other Funds	0	20	6,599	6,619
Total Liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 270,606	\$ 20	\$ 6,599	\$ 277,225
	<hr/>	<hr/>	<hr/>	<hr/>
<u>FUND BALANCE</u>				
Unreserved:				
Designated for:				
Street Improvements	\$ 0	\$ 64,885	\$ 11,003	\$ 75,888
Undesignated	238,407	0	0	238,407
Total Fund Balance	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 238,407	\$ 64,885	\$ 11,003	\$ 314,295
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	\$ 509,013	\$ 64,905	\$ 17,602	\$ 591,520

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007

Total Fund Balances for Governmental Funds		\$	314,295
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:			
Deferred Revenue - End of Year			44,612
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			
Land	\$	45,925	
Land and Building Improvements		803,677	
Buildings		37,000	
Equipment		101,347	
Accumulated Depreciation		(107,395)	880,554
NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u><u>1,239,461</u></u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

YEAR ENDED FEBRUARY 28, 2007

	GENERAL FUND	MAJOR STREET	LOCAL STREET	TOTALS
<u>REVENUES</u>				
Taxes	\$ 66,624	\$ 0	\$ 0	\$ 66,624
Licenses and Permits	50	0	0	50
Special Assessments	50,887	0	0	50,887
Federal Grants	366,270	0	0	366,270
State Grants	209,981	36,454	14,887	261,322
Interest and Rents	35,017	1,729	72	36,818
Donations	20,393	0	0	20,393
Other Revenue	38,462	0	0	38,462
Total Revenues	\$ 787,684	\$ 38,183	\$ 14,959	\$ 840,826
<u>EXPENDITURES</u>				
Legislative	\$ 102,841	\$ 0	\$ 0	\$ 102,841
General Government	676,897	0	0	676,897
Public Works	14,138	18,617	17,031	49,786
Recreation and Culture	44,690	0	0	44,690
Other Functions	31,205	0	0	31,205
Total Expenditures	\$ 869,771	\$ 18,617	\$ 17,031	\$ 905,419
Excess (Deficiency) of Revenues Over Expenditures	\$ (82,087)	\$ 19,566	\$ (2,072)	\$ (64,593)
<u>OTHER FINANCING SOURCES (USES)</u>				
Operating Transfers In	\$ 0	\$ 0	\$ 8,444	\$ 8,444
Operating Transfers Out	(92,768)	(8,444)	0	(101,212)
Total Other Financing Sources (Uses)	\$ (92,768)	\$ (8,444)	\$ 8,444	\$ (92,768)
Net Change in Fund Balance	\$ (174,855)	\$ 11,122	\$ 6,372	\$ (157,361)
<u>FUND BALANCE</u> - Beginning of Year	413,262	53,763	4,631	471,656
<u>FUND BALANCE</u> - End of Year	\$ 238,407	\$ 64,885	\$ 11,003	\$ 314,295

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED FEBRUARY 28, 2007

Net change in Fund Balance - Total Governmental Funds		\$	(157,361)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			
Deferred Revenues			44,612
Amounts reported for governmental activities are different because:			
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation in the statement of activities.			
Depreciation Expense	(12,096)		
Capital Outlay	714,395	702,299	
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$	<u>589,550</u>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
FEBRUARY 28, 2007

	<u>WATER FUND</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS</u>	
Cash	\$ 79,729
Investments	93,747
Accounts Receivable	44,707
	<hr/>
Total Current Assets	\$ 218,183
	<hr/>
<u>CAPITAL ASSETS</u>	
Land and Land Improvements	\$ 2,706
Buildings	1,500
Construction in Progress	69,379
Water Systems	1,178,991
	<hr/>
	\$ 1,252,576
Less Accumulated Depreciation	674,066
Net Capital Assets	<hr/> \$ 578,510
	<hr/>
TOTAL ASSETS	<hr/> \$ 796,693 <hr/>
 <u>LIABILITIES</u>	
<u>CURRENT LIABILITIES</u>	
Due to Other Funds	\$ 91,723
Current Portion of Revenue Bonds	15,000
	<hr/>
Total Current Liabilities	\$ 106,723
	<hr/>
<u>LONG-TERM LIABILITIES</u>	
Revenue Bonds Payable (Net of Current Portion)	192,242
	<hr/>
TOTAL LIABILITIES	<hr/> \$ 298,965 <hr/>
 <u>NET ASSETS</u>	
Invested in Capital Assets, Net of Related Debt	\$ 371,268
Unrestricted	126,460
	<hr/>
Total Net Assets	\$ 497,728
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 796,693 <hr/>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
YEAR ENDED FEBRUARY 28, 2007

	<u>WATER FUND</u>
<u>Revenues</u>	
Operating Revenues	\$ 95,588
 <u>OPERATING EXPENSES</u>	
Personal Services	15,183
Supplies	6,511
Repairs	15,748
Heat, Light and Power	3,818
Equipment Rental	7,135
Depreciation and Amortization	31,790
Employee Benefits	4,812
Miscellaneous	2,279
	<hr/>
Total Operating Expenses	87,276
	<hr/>
Operating Income (Loss)	8,312
	<hr/>
 <u>NONOPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	3,963
Interest and Fiscal Charges	(10,737)
	<hr/>
Total Nonoperating Revenues (Expenses)	(6,774)
	<hr/>
Net Income (Loss)	1,538
	<hr/>
Transfer from General Fund	92,768
Community Development Block Grant	93,600
	<hr/>
Change in Net Assets	187,906
 <u>TOTAL NET ASSETS</u> - Beginning of Year	309,822
	<hr/>
<u>TOTAL NET ASSETS</u> -End of Year	\$ 497,728
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.



VILLAGE OF MESICK, MICHIGAN  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED FEBRUARY 28, 2007

	<u>WATER FUND</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 109,432
Cash Payments to Suppliers for Goods and Services	(14,791)
Other Operating Income	13,310
	<hr/>
Net Cash Provided (Used) by Operating Activities	\$ 107,951
	<hr/>
Cash Flows from Capital and Related Financing Activities:	
Acquisition and Construction of Capital Assets	\$ (257,658)
Payment of Revenue Bond	(15,000)
Interest Payments	(10,737)
Grant Proceeds	93,600
Transfer from General Fund	92,768
	<hr/>
Net Cash Provided (Used) for Capital and Related Financing Activities	\$ (97,027)
	<hr/>
Cash Flows from Investing Activities:	
Interest Received	\$ 3,963
	<hr/>
Net Cash Provided (Used) by Investing Activities	\$ 3,963
	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 14,887
	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	158,589
	<hr/>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	\$ 173,476
	<hr/> <hr/>
<u>RECONCILIATION OF OPERATING INCOME</u> <u>TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>	
Operating Income (Loss)	\$ 8,312
	<hr/>
Adjustments to Reconcile Operating Income	
To Net Cash Provided by Operating Activities	
Depreciation and Amortization	\$ 31,790
(Increase) Decrease in Current Assets	
Accounts Receivable	(13,663)
Increase (Decrease) in Current Liabilities	
Due to Other Funds	81,512
	<hr/>
Total Adjustments	\$ 99,639
	<hr/>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 107,951
	<hr/> <hr/>

The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN  
FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS  
FEBRUARY 28, 2007

ASSETS

Cash	\$ 12,252
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LIABILITIES AND NET ASSETS

LIABILITIES

Due to Other Governments	\$ 12,188
Due to Other Funds	64
	<hr/>
Total Liabilities	\$ 12,252

<u>NET ASSETS</u>	<hr/> 0
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TOTAL LIABILITIES AND NET ASSETS	<hr/> \$ 12,252 <hr/>
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The accompanying notes are an integral part of the financial statements.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The Village of Mesick, Michigan, is a general law village incorporated under the General Village Act of 1895. As required by generally accepted accounting principles, these financial statements present all activities of the Village. Entities for which the Village is considered to be financially accountable are called component units. The Village has no component units.

**B. Government-wide and Fund Financial Statements**

The Village adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially responsible.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

The government-wide focus is more on the sustainability of the Village as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Village are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

The Village of Mesick reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Street Fund* is used to account for the financial activity of the streets designated by the State of Michigan as major thoroughfares and for the maintenance contract of the state trunklines.

The *Local Street Fund* receives all local street money paid to the Village by the State, accounts for all construction, maintenance, traffic services, and snow and ice control on all streets classified as local.

The Village of Mesick reports the following major proprietary fund:

The *Water Fund* records financial activity of the well water system which provides water to customers.

Additionally the Village of Mesick reports the following fund types:

*Agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Village holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water Fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

When both restricted and unrestricted resources are available for use, it is the Village's policy to use the restricted resources first, then unrestricted resources as they are needed.

**D. Assets, Liabilities and Equity**

***1. Deposits and Investments***

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

List of Authorized Investments – The Village Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- (a) Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- (b) Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution. Authorized depositories shall be designated by the Village Board of Trustees at the Board's organizational meeting after each regular election of board members.
- (c) Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- (d) Repurchase agreements consisting of instruments listed in (a).
- (e) Bankers' acceptances of United States banks.
- (f) Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than 1 standard rating service.
- (g) Mutual funds registered under Investment Company Act of 1940, Title 1 of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the Village. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- (h) Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 24.512.
- (i) Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2007

**2. *Receivables and Payables***

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. Village taxes are levied and due July 1, and become delinquent after September 14. Village property tax revenues are recognized when they become both measurable and available for use to finance Village operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2006 taxable valuation of the Village of Mesick totaled \$5,848,796, on which ad valorem taxes levied consisted of 11 mills for the Village of Mesick operating purposes.

**3. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Land and Building improvements	20
Equipment	5-10
Water System	50

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

**4. *Long-term Obligations***

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**5. *Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**6. *Use of Estimates***

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. *Budgetary Information***

1. Prior to March 1, the Village Clerk submits to the Village Council a proposed operating budget for all governmental funds for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. The Village Council holds a public hearing and adopts a resolution approving the budgets.
3. All transfers of budget amounts between functions within the General Fund and any revisions that alter the total expenditures of any fund must be approved by the Village Council. General Fund expenditures may not legally exceed budgeted appropriations at the major function level. Expenditures in all other governmental funds may not exceed appropriations at the total fund level.



VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

FEBRUARY 28, 2007

4. Formal budgetary integration is employed as a management control device during the year for all governmental fund types.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). All appropriations lapse at year end. Budgeted amounts are as originally adopted, or as amended by the Village Council from time to time throughout the year. One budget amendment was made during the year in a legally permissible manner.
6. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) lapse at year-end and do not constitute expenditures or liabilities because the commitments will generally be reappropriated and honored during the subsequent year.

**B. Major funds with expenditures in excess of appropriations were as follows:**

	<u>APPROPRIATIONS</u>		<u>EXPENDITURES</u>
General Fund			
Recreation and Cultural	\$ 0	\$	44,609
Public Works	14,110		14,138

These overages were funded by greater than anticipated revenues in the General Fund.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

The Village's deposits are owned by several of the Village's funds.

*Investment rate risk.* The Village will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Village's cash requirement.

*Foreign currency risk.* The Village is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The Village will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Village's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Village will do business in accordance with the Village's investment policy.

*Concentration of credit risk.* The Village will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of February 28, 2007, of the government's bank balance of \$513,481, \$313,481 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village's investments are categorized to give an indication of the level of risk assumed by the Village at year end. Category 1 includes investments that are insured or registered, or securities held by the Village or the Village's agent in the Village's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Village's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Village's name. At year end, the Village held no investments.

**B. Receivables**

Receivables as of year end for the government's individual major funds and nonmajor, including the applicable allowances for uncollectible accounts are as follows:

	General	Major Street	Local Street	Water	Total
Receivables					
Taxes	\$ 18,638	\$ 0	\$ 0	\$ 0	\$ 18,638
Accounts	0	0	0	44,707	44,707
Special Assessments	44,612	0	0	0	44,612
Due From Other Governments	88,895	12,186	5,637	0	106,718
	<u>\$152,145</u>	<u>\$ 12,186</u>	<u>\$ 5,637</u>	<u>\$ 44,707</u>	<u>\$214,675</u>

By ordinance, the Village can place substantially all of its delinquent receivables on the tax rolls as a lien against real property. As a result, its uncollectible accounts are virtually nil.

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

**C. Capital Assets**

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental activities:</u>				
Capital assets, not being depreciated				
Land	\$ 45,925	\$ 0	\$ 0	\$ 45,925
Capital assets, being depreciated				
Buildings	\$ 37,000	\$ 0	\$ 0	\$ 37,000
Building Improvements	19,725	0	0	19,725
Land Improvements	39,897	744,055	0	783,952
Machinery and Equipment	101,347	0	0	101,347
Total capital assets, being depreciated	\$ 197,969	\$ 744,055	\$ 0	\$ 942,024
Less accumulated depreciation for:				
Buildings	\$ 2,097	\$ 740	\$ 0	\$ 2,837
Building Improvements	6,822	986	0	7,808
Land Improvements	5,155	3,298	0	8,453
Machinery and Equipment	81,226	7,071	0	88,297
Total accumulated depreciation	\$ 95,300	\$ 12,095	\$ 0	\$ 107,395
Total capital assets, being depreciated, net	\$ 102,669	\$ 731,960	\$ 0	\$ 834,629
Governmental activities capital assets, net	\$ 148,594	\$ 731,960	\$ 0	\$ 880,554
<u>Business-Type Activities:</u>				
Capital assets, not being depreciated				
Land	\$ 2,706	\$ 0	\$ 0	\$ 2,706
Construction in Progress	26,031	43,348	0	69,379
Capital assets, being depreciated				
Buildings	\$ 1,500	\$ 0	\$ 0	\$ 1,500
Improvements other than buildings	964,681	214,310	0	1,178,991
Total capital assets, being depreciated	\$ 966,181	\$ 214,310	\$ 0	\$ 1,180,491

VILLAGE OF MESICK, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	\$ 1,500	\$ 0	\$ 0	\$ 1,500
Improvements other than buildings	640,776	31,790	0	672,566
Total accumulated depreciation	\$ 642,276	\$ 31,790	\$ 0	\$ 674,066
Total capital assets, being depreciated	\$ 323,905	\$ 182,520	\$ 0	\$ 506,425
Business-type activities capital assets, net	\$ 352,642	\$ 225,868	\$ 0	\$ 578,510

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General Government	\$ 12,096
Business-type activities:	
Water	<u>31,790</u>
Total depreciation expense	<u>\$ 43,886</u>

**D. Interfund Receivables, Payables and Transfers**

Individual fund interfund receivable and payable balances at February 28, 2007, were:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>INTERFUND PAYABLES</u>
General Fund	\$ 98,406	\$ 0
Special Revenue Funds		
Major Street	0	20
Local Street	0	6,599
Enterprise Funds		
Water and Sewer	0	91,723
Agency Funds		
Sewer Assessment Collection	0	64
	<u>\$ 98,406</u>	<u>\$ 98,406</u>

All remaining balances generally resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All interfund balances outstanding at February 28, 2007, are expected to be repaid within one year.

VILLAGE OF MESICK, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

Interfund Transfers as of February 28, 2007, were:

	TRANSFERS	
	IN	OUT
Primary Government		
Major Street Fund	\$ 0	\$ 8,444
Local Street Fund	8,444	0
	<u>\$ 8,444</u>	<u>\$ 8,444</u>

**F. Long-Term Debt**

***1. Primary Government***

The following is a summary of debt transactions of the Village of Mesick for the year ended February 28, 2007:

Governmental Activities:

	REVENUE BONDS
Debt Payable at March 1, 2006	\$ 222,242
New Debt Incurred	0
Debt Retired	<u>(15,000)</u>
Debt Payable at February 28, 2007	<u>\$ 207,242</u>

Debt payable at February 28, 2007, is comprised of the following:

Revenue Bonds:

\$421,242 Water Supply System Revenue Bonds due in annual installments of \$12,242 to \$20,000 through September 1, 2018; plus interest at 5.00%	<u>\$207,242</u>
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The annual requirements to amortize these debts outstanding as of February 28, 2007, including interest payments of \$64,413 are as follows:

YEAR ENDING FEBRUARY 28, 2008	REVENUE BONDS
PRINCIPAL	\$ 15,000
INTEREST	9,987
TOTAL	<u>\$ 24,987</u>

VILLAGE OF MESICK, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

<u>YEAR ENDING FEBRUARY 28,</u>	<u>REVENUE BONDS</u>
2009	
PRINCIPAL	\$ 15,000
INTEREST	9,237
TOTAL	<u>\$ 24,237</u>
2010	
PRINCIPAL	\$ 15,000
INTEREST	8,487
TOTAL	<u>\$ 23,487</u>
2011	
PRINCIPAL	\$ 15,000
INTEREST	7,737
TOTAL	<u>\$ 22,737</u>
2012	
PRINCIPAL	\$ 15,000
INTEREST	6,987
TOTAL	<u>\$ 21,987</u>
2013-2017	
PRINCIPAL	\$ 100,000
INTEREST	20,560
TOTAL	<u>\$ 120,560</u>
2018	
PRINCIPAL	\$ 32,242
INTEREST	1,418
TOTAL	<u>\$ 33,660</u>
GRAND TOTAL	
PRINCIPAL	\$ 75,000
INTEREST	42,435
TOTAL	<u><u>\$ 271,655</u></u>

**IV. OTHER INFORMATION**

**A. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. During the year ended February 28, 2007, the Village carried commercial insurance to cover all risks of losses. The Village had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

VILLAGE OF MESICK, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
FEBRUARY 28, 2007

**B. Interest Income and Expense**

For the year ended February 28, 2007, total interest/investment income was \$12,609 and total interest expense was \$10,737.

VILLAGE OF MESICK, MICHIGAN  
REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
MAJOR GOVERNMENTAL FUNDS

YEAR ENDED FEBRUARY 28, 2007

	GENERAL FUND			MAJOR STREET FUND			LOCAL STREET FUND		
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>									
Taxes	\$ 63,100	\$ 61,885	\$ 66,624	\$ 37,500	\$ 36,000	\$ 36,454	\$ 14,800	\$ 14,100	\$ 14,887
Licenses and Permits	2,300	2,050	50	0	0	0	0	0	0
Contributions from Local Sources	0	95,000	50,887						
Federal Grants	0	250,000	366,270	0	0	0	0	0	0
State Grants	42,000	341,607	209,981	0	0	0	0	0	0
Interest and Rents	38,000	37,400	35,017	600	600	1,729	25	45	72
Donations	0	0	20,393						
Other Revenue	40,500	57,000	38,462	0	0	0	0	0	0
Total Revenues	\$ 185,900	\$ 844,942	\$ 787,684	\$ 38,100	\$ 36,600	\$ 38,183	\$ 14,825	\$ 14,145	\$ 14,959
<u>EXPENDITURES</u>									
Legislative	\$ 48,740	\$ 104,015	\$ 102,841	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
General Government	194,490	745,552	676,897	0	0	0	0	0	0
Public Works	13,010	14,110	14,138	28,500	27,413	18,617	24,200	24,225	17,031
Culture and Recreation	0	0	44,690	0	0	0	0	0	0
Other Functions	27,991	31,542	31,205	0	0	0	0	0	0
Total Expenditures	\$ 284,231	\$ 895,219	\$ 869,771	\$ 28,500	\$ 27,413	\$ 18,617	\$ 24,200	\$ 24,225	\$ 17,031
Excess (Deficiency) of Revenues Over Expenditures	\$ (98,331)	\$ (50,277)	\$ (82,087)	\$ 9,600	\$ 9,187	\$ 19,566	\$ (9,375)	\$ (10,080)	\$ (2,072)
<u>OTHER FINANCING SOURCES (USES)</u>									
Transfers In	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 9,375	\$ 9,000	\$ 8,444
Transfers Out	0	(92,768)	(92,768)	(9,375)	(9,000)	(8,444)	0	0	0
Total Other Financing Sources (Uses)	\$ 0	\$ (92,768)	\$ (92,768)	\$ (9,375)	\$ (9,000)	\$ (8,444)	\$ 9,375	\$ 9,000	\$ 8,444
Net Change in Fund Balance	\$ (98,331)	\$ 42,491	\$ (174,855)	\$ 225	\$ 187	\$ 11,122	\$ 0	\$ (1,080)	\$ 6,372
<u>FUND BALANCE</u> - Beginning of Year	364,162	386,480	413,262	0	0	53,763	0	0	4,631
<u>FUND BALANCE</u> - End of Year	\$ 265,831	\$ 428,971	\$ 238,407	\$ 225	\$ 187	\$ 64,885	\$ 0	\$ (1,080)	\$ 11,003



VILLAGE OF MESICK, MICHIGAN

GENERAL FUND  
BALANCE SHEET

FEBRUARY 28, 2007

ASSETS

Cash	
Checking and Money Market	\$ 23,497
Certificates of Deposit	234,965
Taxes Receivable	18,638
Special Assessments Receivable	44,612
Due from Other Governments	88,895
Due from Other Funds	
Major Street Fund	20
Local Street Fund	6,599
Water Fund	91,723
Sewer Assessment Collection Agency Fund	64
	<hr/>
TOTAL ASSETS	\$ 509,013
	<hr/>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts Payable	\$ 224,562
Payroll Withholdings Payable	1,432
Deferred Revenue	44,612
	<hr/>

TOTAL LIABILITIES 270,606

FUND BALANCE

Unreserved	238,407
	<hr/>

TOTAL LIABILITIES AND FUND BALANCE \$ 509,013

VILLAGE OF MESICK, MICHIGAN

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2007

<u>REVENUES</u>	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Taxes	\$ 63,100	\$ 61,885	\$ 66,624
Licenses and Permits	2,300	2,050	50
Special Assessments	0	95,000	50,887
Federal Grants	0	250,000	366,270
State Grants	42,000	341,607	209,981
Interest and Rents	38,000	37,400	35,017
Donations	0	0	20,393
Other Revenues	40,500	57,000	38,462
Total Revenues	\$ 185,900	\$ 844,942	\$ 787,684
<u>EXPENDITURES</u>			
Legislative	\$ 48,740	\$ 104,015	\$ 102,841
General Government	194,490	745,552	676,897
Public Works	13,010	14,110	14,138
Recreation and Cultural	0	0	44,690
Other Functions	27,991	31,542	31,205
Total Expenditures	\$ 284,231	\$ 895,219	\$ 869,771
Excess (Deficiency) of Revenues Over Expenditures	\$ (98,331)	\$ (50,277)	\$ (82,087)
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers Out	0	(92,768)	(92,768)
Net Change in Fund Balance	(98,331)	(143,045)	(174,855)
<u>FUND BALANCE</u> - Beginning of Year	364,162	386,480	413,262
<u>FUND BALANCE</u> - End of Year	\$ 265,831	\$ 243,435	\$ 238,407

VILLAGE OF MESICK, MICHIGAN

MAJOR STREET FUND  
BALANCE SHEET

FEBRUARY 28, 2007

ASSETS

Cash	
Checking and Money Market	\$ 4,563
Certificates of Deposit	48,156
Due from Other Governmental Units	<u>12,186</u>
 TOTAL ASSETS	 \$ <u><u>64,905</u></u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Funds	
General Fund	\$ 20

FUND BALANCE

Unreserved	<u>64,885</u>
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TOTAL LIABILITIES AND FUND BALANCE	\$ <u><u>64,905</u></u>
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VILLAGE OF MESICK, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants			
Act 51 Distributions	\$ 37,500	\$ 36,000	\$ 36,454
Interest and Rents			
Interest	600	600	1,729
Total Revenues	\$ 38,100	\$ 36,600	\$ 38,183
<u>EXPENDITURES</u>			
Public Works			
Routine Maintenance			
Personal Services			
Salaries and Wages			\$ 2,670
Employee Benefits			922
Other Services and Charges			
Equipment Rentals			5,102
Winter Maintenance			
Personal Services			
Salaries and Wages			2,297
Employee Benefits			766
Supplies			
Materials and Supplies			817
Other Services and Charges			
Equipment Rentals			6,043
Total Expenditures	\$ 28,500	\$ 27,413	\$ 18,617
Excess (Deficiency) of Revenues Over Expenditures	\$ 9,600	\$ 9,187	\$ 19,566

VILLAGE OF MESICK, MICHIGAN

MAJOR STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers (Out)			
Local Street Fund	(9,375)	(9,000)	(8,444)
Net Change in Fund Balance	\$ 225	\$ 187	\$ 11,122
<u>FUND BALANCE</u> - Beginning of Year			53,763
<u>FUND BALANCE</u> - End of Year			\$ 64,885

VILLAGE OF MESICK, MICHIGAN

LOCAL STREET FUND  
BALANCE SHEET

FEBRUARY 28, 2007

ASSETS

Cash	
Checking and Money Market	\$ 11,965
Due from Other Governmental Units	<u>5,637</u>
 TOTAL ASSETS	 \$ <u>17,602</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Due to Other Funds	
General Fund	\$ 6,599

FUND BALANCE

Unreserved	<u>11,003</u>
 TOTAL LIABILITIES AND FUND BALANCE	 \$ <u>17,602</u>

VILLAGE OF MESICK, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>REVENUES</u>			
State Grants			
Act 51 Distributions	\$ 14,800	\$ 14,100	\$ 14,887
Interest and Rents			
Interest	25	45	72
Total Revenues	\$ 14,825	\$ 14,145	\$ 14,959
<u>EXPENDITURES</u>			
Public Works			
Routine Maintenance			
Personal Services			
Salaries and Wages			\$ 2,490
Employee Benefits			873
Other Services and Charges			
Equipment Rental			5,344
Contracted Services			600
Winter Maintenance			
Personal Services			
Salaries and Wages			1,457
Employee Benefits			491
Supplies			
Operating Supplies			1,425
Other Services and Charges			
Equipment Rental			4,351
Total Expenditures	\$ 24,200	\$ 24,225	\$ 17,031
Excess (Deficiency) of Revenues Over Expenditures	\$ (9,375)	\$ (10,080)	\$ (2,072)

VILLAGE OF MESICK, MICHIGAN

LOCAL STREET FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL

YEAR ENDED FEBRUARY 28, 2007

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
<u>OTHER FINANCING SOURCES (USES)</u>			
Operating Transfers In			
Major Street Fund	9,375	9,000	8,444
Net Change in Fund Balance	\$ 0	\$ (1,080)	\$ 6,372
<u>FUND BALANCE</u> - Beginning of Year			4,631
<u>FUND BALANCE</u> - End of Year			\$ 11,003



VILLAGE OF MESICK, MICHIGAN

WATER FUND  
STATEMENT OF NET ASSETS

FEBRUARY 28, 2007

ASSETS

CURRENT ASSETS

Cash	
Checking and Money Market	\$ 79,729
Certificate of Deposit	93,747
Accounts Receivable	44,707
	<hr/>
Total Current Assets	\$ 218,183

CAPITAL ASSETS

Land	\$ 2,706
Buildings	1,500
Water Systems	1,178,991
Construction in Progress	69,379
	<hr/>
Total Capital Assets	\$ 1,252,576
Less Accumulated Depreciation	674,066
	<hr/>
Net Capital Assets	\$ 578,510
	<hr/>
TOTAL ASSETS	\$ 796,693

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Due to General Fund	\$ 91,723
Revenue Bonds Payable - Current Portion	15,000
	<hr/>
Total Current Liabilities	\$ 106,723

LONG-TERM LIABILITIES

Revenue Bonds Payable (Net of Current Portion)	192,242
	<hr/>
Total Liabilities	\$ 298,965

NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 371,268
Unrestricted	126,460
	<hr/>
Total Net Assets	\$ 497,728
	<hr/>
TOTAL LIABILITIES AND NET ASSETS	\$ 796,693

VILLAGE OF MESICK, MICHIGAN

WATER FUND

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

YEAR ENDED FEBRUARY 28, 2007

OPERATING REVENUES

Charges for Services	
Sales	\$ 82,278
Other Revenue	
Equipment Rental	13,310
	<hr/>
Total Operating Revenues	\$ 95,588

OPERATING EXPENSES

Plant	
Personal Services	
Salaries and Wages	\$ 15,183
Employee Benefits	4,812
Supplies	6,511
Other Services and Charges	
Repairs	15,748
Utilities	3,818
Equipment Rental	7,135
Depreciation	31,790
Miscellaneous	2,279
	<hr/>
Total Operating Expenses	\$ 87,276
	<hr/>
Operating Income (Loss)	\$ 8,312

NONOPERATING REVENUES (EXPENSES)

Interest Revenue	\$ 3,963
Interest and Fiscal Charges	(10,737)
	<hr/>
Total Nonoperating Revenues (Expenses)	\$ (6,774)
	<hr/>
Net Income (Loss)	\$ 1,538
Transfer from General Fund	92,768
Community Development Block Grant	93,600
	<hr/>
Change in Net Assets	\$ 186,368

<u>NET ASSETS</u> - Beginning of Year	309,822
	<hr/>
<u>NET ASSETS</u> - End of Year	\$ 497,728

VILLAGE OF MESICK, MICHIGAN

WATER FUND

STATEMENT OF CASH FLOWS

YEAR ENDED FEBRUARY 28, 2007

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

Cash Flows from Operating Activities

Cash Received from Customers	\$ 109,432
Cash Payments to Suppliers for Goods and Services	(14,791)
Other Operating Income	13,310

Net Cash Provided by Operating Activities	<u>\$ 107,951</u>
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Cash Flows from Capital and Related Financing Activities

Acquisition and Construction of Capital Assets	\$ (257,658)
Payment of Revenue Bond	(15,000)
Interest Payments	(10,737)
Grant Proceeds	93,600
Transfer from General Fund	92,768

Net Cash Used for Capital and Related Financing Activities	<u>\$ (97,027)</u>
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Cash Flows from Investing Activities

Interest on Investments	<u>\$ 3,963</u>
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Net Increase in Cash and Cash Equivalents	<u>\$ 14,887</u>
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<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>158,589</u>
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<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u><u>\$ 173,476</u></u>
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RECONCILIATION OF OPERATING INCOME

TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating Income (Loss)	<u>\$ 8,312</u>
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Adjustments to Reconcile Operating Income to

Net Cash Provided by Operating Activities:

Depreciation	\$ 31,790
(Increase) Decrease in Current Assets	
Accounts Receivable	(13,663)
Increase (Decrease) in Current Liabilities	
Due to Other Funds	81,512

Total Adjustments	<u>\$ 99,639</u>
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<u>Net Cash Provided by Operating Activities</u>	<u><u>\$ 107,951</u></u>
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VILLAGE OF MESICK, MICHIGAN

SEWER ASSESSMENT COLLECTION AGENCY FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

YEAR ENDED FEBRUARY 28, 2007

	BALANCE			BALANCE
	3/1/2004	ADDITIONS	DELETIONS	2/28/2005
<u>ASSETS</u>				
Cash	\$ 15,271	\$ 14,085	\$ 17,104	\$ 12,252
<u>LIABILITIES</u>				
Due to Other Governments	\$ 15,207	\$ 14,085	\$ 17,104	\$ 12,188
Due to Other Funds	64	0	0	64
Total Liabilities	\$ 15,271	\$ 14,085	\$ 17,104	\$ 12,252

VILLAGE OF MESICK, MICHIGAN  
WATER SUPPLY SYSTEM REVENUE BONDS PAYABLE  
FEBRUARY 28, 2007

<u>TITLE OF ISSUE</u>	Water Supply System Revenue Bonds
<u>DATE OF ISSUE</u>	September 1, 1978
<u>PURPOSE</u>	To finance a portion of the cost of acquiring and constructing a water supply system to serve the area.
<u>INTEREST PAYABLE</u>	September 1, and March 1, or each year
<u>AMOUNT OF ISSUE</u>	\$ 421,242
<u>AMOUNT REDEEMED</u>	
Prior to Current Year	\$ 199,000
During Current Year	15,000
	<u>214,000</u>
<u>BALANCE OUTSTANDING</u> - February 28, 2007	<u>\$ 207,242</u>
<u>RATE OF INTEREST</u>	5% per annum on all maturities

<u>DUE DATES</u>	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
September 1, 2007	\$ 15,000	\$ 5,181	\$ 20,181
March 1, 2008		4,806	4,806
September 1, 2008	15,000	4,806	19,806
March 1, 2009		4,431	4,431
September 1, 2009	15,000	4,431	19,431
March 1, 2010		4,056	4,056
September 1, 2010	15,000	4,056	19,056
March 1, 2011		3,681	3,681
September 1, 2011	15,000	3,681	18,681
March 1, 2012		3,306	3,306
September 1, 2012	20,000	3,306	23,306
March 1, 2013		2,806	2,806
September 1, 2013	20,000	2,806	22,806
March 1, 2014		2,306	2,306
September 1, 2014	20,000	2,306	22,306
March 1, 2015		1,806	1,806
September 1, 2015	20,000	1,806	21,806
March 1, 2016		1,306	1,306
September 1, 2016	20,000	1,306	21,306
March 1, 2017		806	806
September 1, 2017	20,000	806	20,806
March 1, 2018		306	306
September 1, 2018	12,242	306	12,548
	<u>\$ 207,242</u>	<u>\$ 64,413</u>	<u>\$ 271,655</u>

VILLAGE OF MESICK, MICHIGAN

STATEMENT OF 2006 TAX ROLL  
YEAR ENDED FEBRUARY 28, 2007

<u>TAXES ASSESSED</u> ( State Taxable Valuation \$5,848,796 )	\$ 64,336
General Fund - 11.00 Mills	
<u>TAXES COLLECTED</u>	
General Fund	<u>45,698</u>
<u>TAXES RETURNED DELINQUENT</u>	
General Fund	<u><u>\$ 18,638</u></u>

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

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August 27, 2007

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Village Council  
Village of Mesick, Michigan

We have audited the financial statements of the Village of Mesick as of and for the year ended February 28, 2007, and have issued our report thereon dated August 27, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Mesick's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Mesick's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying letter of significant deficiencies, to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Mesick's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Village of Mesick in a separate letter dated August 27, 2007.

This report is intended solely for the information and use of management, the Village Council, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*



# *Baird, Cotter and Bishop, P.C.*

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August 27, 2007

### **COMMUNICATION OF SIGNIFICANT DEFICIENCIES THAT INDICATE NO MATERIAL WEAKNESSES IN INTERNAL CONTROL**

To the Village Council  
Village of Mesick  
Mesick, Michigan

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Mesick as of and for the year ended February 28, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Mesick's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

## 1) Lack of Segregation of Duties

The relatively small number of people involved in the accounting functions of the Village and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Council must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

## 2) Lack of Adequate Controls to Produce Full Disclosure GAAP Basis Financial Statements.

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its *external* auditors, who cannot by definition be considered a part of the government's *internal* controls.

This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally. As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This report is intended solely for the information and use of the Council and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

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August 27, 2007

### LETTER OF COMMENTS AND RECOMMENDATIONS

To the Village Council  
Village of Mesick  
Mesick, Michigan

As a result of our audit of the financial statements of the Village of Mesick, Michigan, for the year ended February 28, 2007, we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the Village:

#### Budgeting

Pertaining to the Village's compliance with Public Act 621 of 1978, the following items are noted:

1. Two activities in the General Fund exceeded the budgeted amount. In addition, the Major Street Fund and Local Street Fund budgets did not include beginning balances and estimated ending balances.

#### Property Tax Administration Fee

The Village is charging a 1% property tax administration fee. The Village has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Village keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

We would like to thank the Council for its continued confidence in our firm by awarding us the audit assignment of the Village. We would also like to thank the Clerk for his cooperation in helping us fulfill the audit of the Village records.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*